

**CITY OF ARCADIA**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2011**



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## **CITY OF ARCADIA**

### **OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Joel Owen	Mayor	January 2011
Dwight Bluml	Mayor Pro-Tem	January 2011
Mary Jo Berning	Council Member	January 2011
Wes Bierl	Council Member	January 2013
Linda Julin	Council Member	January 2011
Chad Wittrock	Council Member	January 2011
Nancy Schmitz	City Clerk / Treasurer	Indefinite
Robert Peters	City Attorney	Indefinite

# MUXFELDT

## ASSOCIATES, CPA, P.C.

Certified Public Accountant

January 12, 2012

**Lonnie G. Muxfeldt**

Certified Public  
Accountant

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**Licensed In:**

Iowa  
Missouri

### Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Arcadia, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Arcadia's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Continued . . .

January 12, 2012  
Page Two

To the Honorable Mayor and  
Members of the City Council:

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Arcadia as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 12, 2012 on my consideration of the City of Arcadia's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Arcadia's basic financial statements. Other supplementary information, included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 Murphy & Associates, CPA, P.C.





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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Arcadia provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 8.3%, or approximately \$25,000, from fiscal year 2010 to fiscal year 2011. Tax increment financing receipts increased approximately \$10,000.

Disbursements of the City's governmental activities increased 21.8%, or approximately \$48,000, in fiscal year 2011 from fiscal year 2010. Debt service disbursements increased approximately \$41,500.

The City's total cash basis net assets decreased 9.8%, or approximately \$81,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$59,000 and the assets of the business type activities decreased approximately \$140,000.

### USING THIS REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased significantly from a year ago, increasing approximately \$59,000 to \$434,317. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year Ended June 30, 2011
Receipts:	
Program receipts:	
Charges for services	\$ 30,774
Operating grants, contributions and restricted interest	56,670
Capital grants, contributions and restricted interest	-0-
General receipts:	
Property tax	73,052
Tax increment financing	98,224
Local option sales tax	56,848
Unrestricted investment earnings	1,019
Miscellaneous	5,241
Total receipts	321,828
Disbursements:	
Public safety	22,788
Public works	85,829
Culture and recreation	12,085
General government	38,689
Debt service	106,892
Capital projects	-0-
Total disbursements	266,283
Change in cash basis net assets before transfers	55,545
Transfers, net	3,116
Change in cash basis net assets	58,661
Cash basis net assets, beginning of year	375,656
Cash basis net assets, end of year	\$ 434,317

The City's total receipts for governmental activities increased 8.3%, or approximately \$25,000. The total cost of all programs and services increased approximately \$48,000, or 22%, with no new programs added this year. The significant increase in receipts was primarily the result of increased tax incremental financing receipts.

The cost of all governmental activities this year was approximately \$266,000 compared to approximately \$218,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 13 and 14, the amount taxpayers ultimately financed for these from the programs was only \$178,839 because some of the cost was paid by those directly benefited from the programs (\$30,774) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$56,670).

Changes in Cash Basis Net Assets of Business Type Activities	
	Year Ended June 30, 2011
Receipts:	
Program receipts:	
Charges for services and sales:	
Water	\$ 60,228
Sewer	66,138
General receipts:	
Interest	1,207
Total receipts	<u>127,573</u>
Disbursements:	
Water	70,995
Sewer	193,205
Total disbursements	<u>264,200</u>
Change in cash basis net assets before transfers	(136,627)
Transfers, net	<u>(3,116)</u>
Change in cash basis net assets	(139,743)
Cash basis net assets, beginning of year	<u>447,999</u>
Cash basis net assets, end of year	\$ <u>308,256</u>

Total business type activities receipts for the fiscal year were approximately \$127,500 compared to approximately \$124,000 last year. The cash balance decreased approximately \$140,000 from the prior year primarily because of the sewer sludge lagoon project. Total disbursements for the fiscal year increased 156% to approximately \$264,200.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Arcadia completed this year, its governmental funds reported a combined fund balance of \$434,317, an increase of more than \$58,000 above last year's total of \$375,656. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$9,389 from the prior year to \$141,992. The decrease was primarily due to paying off the fire department's pumper truck note.

The Special Revenue, Road Use Tax Fund cash balance increased \$23,904 from the prior year to \$108,394. Road use taxes increased approximately \$1,000 from the prior year and disbursements were less than the prior year.

The Special Revenue, Urban Renewal Tax Increment Fund cash balance at the end of the fiscal year was \$186,758, an increase of \$45,664 from the previous year. Tax increment financing receipts increased approximately \$10,000 from the prior year.

The Special Revenue, Local Option Tax Fund cash balance decreased \$4,155 from the prior year to a deficit of \$2,078 at June 30, 2011. Local option tax increased approximately \$7,000 from the prior year. Local option tax is transferred to the general fund and allocated one half for use by the general fund and one half for use by the fire department. Prior to July 2010, local option tax was transferred and allocated half to the general fund and half to the sewer fund.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Enterprise, Water Fund cash balance decreased \$9,985 to \$160,648, due primarily to a rate increase in the cost of water over the prior year.

The Enterprise, Sewer Fund cash balance decreased \$129,758 to \$147,608, due primarily to the cost of removing sludge from the sewer lagoons.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the city amended its budget once. The amendment was approved on May 9, 2011 and increased budgeted disbursements by \$277,700, primarily related to the public works, debt service and business type activities.

The City's actual receipts were \$2,104 less than budgeted. The City's actual disbursements were \$195,567 less than budgeted. Unfortunately, it was the fiscal year 2012 budget figures that City Council amended on May 9, 2011 rather than the fiscal year 2011 budget.

In any case, actual disbursements exceeded amounts budgeted in the debt service and business type activities functions for the year ended June 30, 2011.



## DEBT ADMINISTRATION

At June 30, 2011, the City had \$484,923 in bonds and other long-term debt outstanding, compared to \$597,917 last year, as shown below.

Outstanding Debt			
		Year Ended June 30, 2011	Year Ended June 30, 2010
General obligation notes	\$	48,423	\$ 111,917
Urban renewal tax increment financing bonds		237,000	258,000
Revenue bonds		199,500	228,000
Total	\$	484,923	\$ 597,917

Debt decreased by \$112,994. The City paid off its pumper truck loan of \$49,999 four years early. Interest costs on City indebtedness was \$23,575 for the year ended June 30, 2011. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and TIF debt of \$285,423 is significantly below its constitutional debt limit of approximately \$865,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Arcadia's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. Amounts available for appropriation in the operating budget are approximately \$554,000, and increase of 5% over the fiscal year 2011 budget as adopted. Property tax (benefiting from the fiscal year 2011 rate increases and increases in assessed valuations), increases from the urban renewal tax increment financing receipts and the proceeds from a general obligation street improvement loan are expected to lead this increase. Budgeted disbursements are expected to rise approximately \$56,000 over the fiscal year 2011 budget as adopted. Street improvements represent the largest increase.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$3,000 by the close of fiscal year 2012.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have question about this report or need additional financial information, contact Nancy Schmitz, City Clerk, at 205 W Front Street, Arcadia, IA 51430.





## **BASIC FINANCIAL STATEMENTS**

**CITY OF ARCADIA**  
**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

			Program Receipts	
	Disbursements	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 22,788	\$ 50	\$ 11,474	\$ -0-
Public works	85,829	28,276	44,914	0-
Cultures and recreation	12,085	1,668	-0-	-0-
General government	38,689	780	282	-0-
Debt service	106,892	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-
Total governmental activities	266,283	30,774	56,670	-0-
Business type activities:				
Water	70,995	60,228	782	-0-
Sewer	193,205	66,138	425	-0-
Total business type activities	264,200	126,366	1,207	-0-
<b>Total</b>	<b>\$ 530,483</b>	<b>\$ 157,140</b>	<b>\$ 57,877</b>	<b>\$ -0-</b>
<b>General receipts:</b>				
Property taxes levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
<b>Cash basis net assets</b>				
Restricted:				
Streets				
Urban renewal				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (11,264)	\$ -0-	\$ (11,264)
(12,639)	-0-	(12,639)
(10,417)	-0-	(10,417)
(37,627)	-0-	(37,627)
(106,892)	-0-	(106,892)
-0-	-0-	-0-
<u>(178,839)</u>	<u>-0-</u>	<u>(178,839)</u>
-0-	(9,985)	(9,985)
-0-	(126,642)	(126,642)
<u>-0-</u>	<u>(136,627)</u>	<u>(136,627)</u>
(178,839)	(136,627)	(315,466)
73,052	-0-	73,052
98,224	-0-	98,224
56,848	-0-	56,848
1,019	-0-	1,019
5,241	-0-	5,241
3,116	(3,116)	-0-
<u>237,500</u>	<u>(3,116)</u>	<u>234,384</u>
58,661	(139,743)	(81,082)
<u>375,656</u>	<u>447,999</u>	<u>823,655</u>
\$ <u>434,317</u>	\$ <u>308,256</u>	\$ <u>742,573</u>
\$ 108,394	\$ -0-	\$ 108,394
186,758	-0-	186,758
138,666	-0-	138,666
499	308,256	308,755
\$ <u>434,317</u>	\$ <u>308,256</u>	\$ <u>742,573</u>

**CITY OF ARCADIA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment Financing
Receipts:			
Property tax	\$ 52,594	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	98,224
Other city tax	1,662	-0-	-0-
Licenses and permits	830	-0-	-0-
Use of money and property	3,710	19	5
Intergovernmental	19,087	36,536	-0-
Charges for services	28,276	-0-	-0-
Miscellaneous	5,241	-0-	-0-
Total receipts	<u>111,400</u>	<u>36,555</u>	<u>98,229</u>
Disbursements:			
Operating:			
Public safety	22,611	-0-	-0-
Public works	71,303	12,348	-0-
Culture and recreation	11,666	-0-	-0-
General government	23,449	-0-	-0-
Debt service	-0-	-0-	53,825
Capital projects	-0-	-0-	-0-
Total disbursements	<u>129,029</u>	<u>12,348</u>	<u>53,825</u>
Excess (deficiency) of receipts over (under) disbursements	(17,629)	24,207	44,404
Other financing sources (uses):			
Operating transfers in	62,710	1,404	1,260
Operating transfers out	(54,470)	(1,707)	-0-
Total other financing sources (uses)	<u>8,240</u>	<u>(303)</u>	<u>1,260</u>
Net change in cash balances	(9,389)	23,904	45,664
Cash balances, beginning of year	<u>151,381</u>	<u>84,490</u>	<u>141,094</u>
Cash balances, end of eight months	\$ <u>141,992</u>	\$ <u>108,394</u>	\$ <u>186,758</u>
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Urban renewal purposes	\$ -0-	\$ -0-	\$ 186,758
Streets	-0-	108,394	-0-
Assigned	137,615	-0-	-0-
Unassigned	4,377	-0-	-0-
Total cash basis fund balances	\$ <u>141,992</u>	\$ <u>108,394</u>	\$ <u>186,758</u>

See notes to financial statements.

EXHIBIT B

	Local Option Tax	Other Non-major Governmental Funds	Total
\$	-0-	\$ 18,209	\$ 70,803
	-0-	-0-	98,224
	56,848	587	59,097
	-0-	-0-	830
	-0-	-0-	3,734
	-0-	-0-	55,623
	-0-	-0-	28,276
	-0-	-0-	5,241
	<u>56,848</u>	<u>18,796</u>	<u>321,828</u>
	-0-	177	22,788
	-0-	2,178	85,829
	-0-	419	12,085
	-0-	15,240	38,689
	-0-	53,067	106,892
	-0-	-0-	-0-
	<u>-0-</u>	<u>71,081</u>	<u>266,283</u>
	56,848	(52,285)	55,545
	-0-	56,182	121,556
	(61,003)	(1,260)	(118,440)
	<u>(61,003)</u>	<u>54,922</u>	<u>3,116</u>
	(4,155)	2,637	58,661
	<u>2,077</u>	<u>(3,386)</u>	<u>375,656</u>
\$	<u>(2,078)</u>	\$ <u>(749)</u>	\$ <u>434,317</u>
\$	-0-	\$ -0-	\$ 186,758
	-0-	-0-	108,394
	-0-	1,051	138,666
	(2,078)	(1,800)	499
\$	<u>(2,078)</u>	\$ <u>(749)</u>	\$ <u>434,317</u>



## CITY OF ARCADIA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Water	Sewer	Total
Operating receipts:			
Charges for services	\$ 60,228	\$ 66,138	\$ 126,366
Operating disbursements:			
Business type activities	70,995	164,020	235,015
Operating income	(10,767)	(97,882)	(108,649)
Non-operating receipts (disbursements):			
Interest	782	425	1,207
Debt service	-0-	(29,185)	(29,185)
Total non-operating receipts (disbursements)	782	(28,760)	(27,978)
Excess (deficiency) of receipts over (under) disbursements	(9,985)	(126,642)	(136,627)
Other financing sources (uses):			
Operating transfer out	-0-	(3,116)	(3,116)
Net change in cash balance	(9,985)	(129,758)	(139,743)
Cash balances, beginning of year	170,633	277,366	447,999
Cash balances, end of year	\$ 160,648	\$ 147,608	\$ 308,256
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 160,648	\$ 147,608	\$ 308,256
Total cash basis fund balances	\$ 160,648	\$ 147,608	\$ 308,256

See notes to financial statements.





## **NOTES TO FINANCIAL STATEMENTS**



**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Arcadia is a political subdivision of the State of Iowa and located in Carroll County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, and general administrative services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Arcadia has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the City. The City of Arcadia has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Carroll County Assessor's Conference Board, Carroll County Emergency Management Commission, Carroll County Landfill Commission and Carroll County Joint E911 Service Board.

**CITY OF ARCADIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges from services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories/components:

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: 1) charges to customers or applicants whose purchase or use directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

**B. Basis of Presentation (Cont'd)**

**Special Revenue:**

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Tax Fund is used to account for local option sales tax allocation from the State of Iowa and is used for general operating disbursements of the City and the fire department.

**The City reports the following major proprietary funds:**

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Arcadia maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restricted classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

**D. Governmental Cash Basis Fund Balances**

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**NOTE 2 CASH AND POOLED INVESTMENTS**

The City's deposits in bank at June 30, 2011, were covered entirely by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, consisting of demand and certificates of deposit, is held at a local bank in the City's name and totals \$742,573 as of June 30, 2011.

**CITY OF ARCADIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 3 BONDS AND NOTES PAYABLE**

Annual debt service requirements to maturity for the City's general obligation notes, urban renewal tax increment financing revenue bonds, and sewer revenue notes are as follows:

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2012	\$ 13,967	\$ 995
2013	14,456	506
2014	-0-	-0-
2015	-0-	-0-
2016	-0-	-0-
2017	20,000	-0-
Total	\$ 48,423	\$ 1,501

Year Ending June 30,	Sewer Revenue Notes		Urban Renewal Tax Increment Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 23,000	\$ 7,490	\$ 28,500	\$ 9,476	\$ 65,467	\$ 17,961
2013	24,000	6,730	28,500	8,123	66,956	15,359
2014	24,000	5,935	28,500	6,769	52,500	12,704
2015	25,000	5,140	28,500	5,415	53,500	10,555
2016	26,000	4,870	28,500	4,061	54,500	8,931
2017	10,000	3,450	28,500	2,708	58,500	6,158
2018	10,000	3,150	28,500	1,353	38,500	4,503
2019	11,000	2,850	-0-	-0-	11,000	2,850
2020	11,000	2,520	-0-	-0-	11,000	2,520
2021	11,000	2,190	-0-	-0-	11,000	2,190
2022	12,000	1,860	-0-	-0-	12,000	1,860
2023	12,000	1,500	-0-	-0-	12,000	1,500
2024	12,000	1,140	-0-	-0-	12,000	1,140
2025	13,000	780	-0-	-0-	13,000	780
2026	13,000	390	-0-	-0-	13,000	390
Total	\$ 237,000	\$ 49,995	\$ 199,500	\$ 37,905	\$ 484,923	\$ 89,401

**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 3 NOTES PAYABLE (Continued)**

General Obligation Replacement Note

On October 5, 2001, the City issued a general obligation note in the amount of \$124,427. The note bears interest at 3.5%, requires annual installments of \$14,962 and matures June 1, 2012.

Promissory Note

On October 8, 2001, the City signed a promissory note with the Arcadia Betterment & Development Corporation. The \$20,000 note bears interest at 0% and matures October 8, 2016. The City reserves the right to repay this note at any time.

Revenue Debt Resolutions

The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the sewer fund.

Urban Renewal Tax Increment Financing Bond

On October 15, 2008, the City issued an Urban Renewal Tax Increment Revenue Bond in the amount of \$285,000. The bond bears interest at 4.75%, requires annual principal installments of \$28,500, plus interest, and matures June 1, 2018.

**NOTE 4 PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute a 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2011 was \$3,087 equal to the required contributions for the year.



**CITY OF ARCADIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 5 PROPERTY TAXES**

Property taxes become an enforceable lien on property when they are certified to the County Board of Supervisors on or before March 15. Taxes are payable on September 30 and March 31, payment later than this results in a penalty. The County bills and collects property taxes and remits them to the City monthly.

**NOTE 6 RELATED PARTY TRANSACTIONS**

The City had business transactions that totaled \$13,536 between the City and City officials during the year ended June 30, 2011.

**NOTE 7 INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2011, is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue - Local Option Tax	\$ 61,003
Debt Service	General	53,066
Special Revenue - Road Use	General	1,404
General	Special Revenue - Road Use	1,707
Debt Service	Proprietary - Sewer	3,116
Special Revenue - Urban Renewal	Capital Projects	1,260
Total		\$ <u>121,556</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**NOTE 8 RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past fiscal year.



**CITY OF ARCADIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 9 URBAN RENEWAL**

In February 1999, the City adopted an Urban Renewal Plan for the Urban Renewal Area of the City, pursuant to Chapters 15A, 403 and 403A of the Iowa Code. The objectives of the plan include: authorizing the provision of financial incentives necessary to attract new people, industries and businesses to the community and encouraging the expansion of existing residential housing, industries and businesses; expanding the existing residential and commercial property tax base of the community; and the creation and retention of permanent employment opportunities for local residents through economic development. The project area includes the downtown area and the Redig Subdivision. The urban renewal plan is effective for twenty-five years till February 2024 or till such time that the City has received full reimbursement from incremental taxes from advances, principal and interest payments on the urban renewal tax increment revenue bonds or any general obligation bonds or notes issued to carry out the objectives of the project area.

**NOTE 10 DEFICIT BALANCE**

The Special Revenue - Local Option Tax Fund had a deficit balance of \$2,078 at June 30, 2011. The deficit balance will be eliminated upon receipt of funds. The Special Revenue - Tort Fund had a deficit balance of \$1,800 at June 30, 2011. The deficit will be eliminated upon receipt of property tax funds.

**NOTE 11 SUBSEQUENT EVENTS**

On July 5, 2011, the City approved the issuance of a \$100,000 general obligation street improvement loan agreement for the purpose of financing the construction of street improvements.



## **REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF ARCADIA

BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 70,803	\$ -0-
Tax increment financing	98,224	-0-
Other city tax	59,097	-0-
Licenses and permits	830	-0-
Use of money and permits	3,734	1,207
Intergovernmental	55,623	-0-
Charges for services	28,276	126,366
Miscellaneous	5,241	-0-
Total receipts	321,828	127,573
Disbursements:		
Public safety	22,788	-0-
Public works	85,829	-0-
Culture and recreation	12,085	-0-
General government	38,689	-0-
Debt service	106,892	-0-
Capital projects	-0-	-0-
Business type	-0-	264,200
Total disbursements	266,283	264,200
Excess (deficiency) of receipts over (under) disbursements	55,545	(136,627)
Other financing sources, net	3,116	(3,116)
Excess (deficiency) of receipts and other financing sources	58,661	(139,743)
Balance beginning of year	375,656	447,999
Balance end of year	\$ 434,317	\$ 308,256

See Accompanying Independent Auditor's Report.

Total		Budgeted Amounts		Final to Total Variance	
		Original	Final		
\$	70,803	\$ 70,276	\$ 72,576	\$	(1,773)
	98,224	98,000	107,500		(9,276)
	59,097	55,274	55,435		3,662
	830	1,280	980		(150)
	4,941	5,314	5,099		(158)
	55,623	51,100	53,900		1,723
	154,642	150,800	153,815		827
	5,241	500	2,200		3,041
	<u>449,401</u>	<u>432,544</u>	<u>451,505</u>		<u>(2,104)</u>
	22,788	24,300	23,150		362
	85,829	113,314	266,245		180,416
	12,085	14,140	16,440		4,355
	38,689	40,261	46,675		7,986
	106,892	11,700	48,500		(58,392)
	-0-	51,465	62,650		62,650
	264,200	150,425	262,390		(1,810)
	<u>530,483</u>	<u>405,605</u>	<u>726,050</u>		<u>195,567</u>
	(81,082)	26,939	(274,545)		193,463
	<u>-0-</u>	<u>4,425</u>	<u>277,000</u>		<u>(277,000)</u>
	(81,082)	31,364	2,455		(83,537)
	<u>823,655</u>	<u>823,655</u>	<u>823,655</u>		<u>-0-</u>
\$	<u>742,573</u>	\$ <u>855,019</u>	\$ <u>826,110</u>	\$	<u>(83,537)</u>





**CITY OF ARCADIA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY REPORTING**

**JUNE 30, 2011**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$320,445. The budget amendments are reflected in the final budgeted amounts. During the year ended June 30, 2011, disbursements exceed the amounts budgeted in the debt service and business type activities.



## **OTHER SUPPLEMENTARY INFORMATION**

**CITY OF ARCADIA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES -  
NON-MAJOR GOVERNMENTAL FUNDS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

	Special Revenue	
	Employee	Tort
	Benefits	
Receipts:		
Property tax	\$ 5,249	\$ 12,960
Other city taxes	169	418
Total receipts	<u>5,418</u>	<u>13,378</u>
Disbursements:		
Operations:		
Public safety	177	-0-
Public works	2,178	-0-
Culture and recreation	419	-0-
General government	6,139	9,101
Debt service	-0-	-0-
Capital projects	-0-	-0-
Total disbursements	<u>8,913</u>	<u>9,101</u>
Excess (deficiency) of receipts over (under) disbursements	(3,495)	4,277
Other financing sources (uses):		
Operating transfers in	-0-	-0-
Operating transfers out	-0-	-0-
Net financing sources (uses)	<u>-0-</u>	<u>-0-</u>
Net change in cash balances	(3,495)	4,277
Cash balances beginning of year	<u>4,546</u>	<u>(6,077)</u>
Cash balances end year	<u>\$ 1,051</u>	<u>\$ (1,800)</u>
<b>Cash Basis Fund Balances</b>		
Assigned for employee benefits	\$ 1,051	\$ -0-
Unassigned	-0-	(1,800)
Total cash basis fund balances	<u>\$ 1,051</u>	<u>\$ (1,800)</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 1

Debt Service		Capital Projects		Total	
\$	-0-	\$	-0-	\$	18,209
	-0-		-0-		587
	-0-		-0-		18,796
	-0-		-0-		177
	-0-		-0-		2,178
	-0-		-0-		419
	-0-		-0-		15,240
	53,067		-0-		53,067
	-0-		-0-		-0-
	53,067		-0-		71,081
	(53,067)		-0-		(52,285)
	56,182		-0-		56,182
	-0-		(1,260)		(1,260)
	56,182		(1,260)		54,922
	3,115		(1,260)		2,637
	(3,115)		1,260		(3,386)
\$	-0-	\$	-0-	\$	(749)
\$	-0-	\$	-0-	\$	1,051
	-0-		-0-		(1,800)
\$	-0-	\$	-0-	\$	(749)

**CITY OF ARCADIA**  
**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2011**

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<u>General Obligation</u>			
GO Replacement Note	October 5, 2001	3.50%	\$ 124,427
Promissory Note	October 8, 2001	0.00%	\$ 20,000
Pumper Note	April 1, 2005	5.10%	\$ 88,988
<u>Revenue Notes</u>			
Sewer Revenue Note	July 1, 2003	3.50%	\$ 155,000
Sewer Revenue Note	June 1, 2006	3.00%	\$ 243,000
<u>Urban Renewal Tax Increment Revenue Bond</u>			
	October 15, 2008	4.75%	\$ 228,000

See accompanying independent auditor's report.

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 41,918	\$ -0-	\$ 13,495	\$ 28,423	\$ 994	\$ 160
20,000	-0-	-0-	20,000	-0-	-0-
<u>49,999</u>	<u>-0-</u>	<u>49,999</u>	<u>-0-</u>	<u>3,068</u>	<u>-0-</u>
\$ <u>111,917</u>	\$ <u>-0-</u>	\$ <u>63,494</u>	\$ <u>48,423</u>	\$ <u>4,062</u>	\$ <u>160</u>
\$ 89,000	\$ -0-	\$ 13,000	\$ 76,000	\$ 3,115	\$ 2,660
<u>169,000</u>	<u>-0-</u>	<u>8,000</u>	<u>161,000</u>	<u>5,070</u>	<u>403</u>
\$ <u>258,000</u>	\$ <u>-0-</u>	\$ <u>21,000</u>	\$ <u>237,000</u>	\$ <u>8,185</u>	\$ <u>3,063</u>
\$ <u>228,000</u>	\$ <u>-0-</u>	\$ <u>28,500</u>	\$ <u>199,500</u>	\$ <u>11,327</u>	\$ <u>790</u>

**CITY OF ARCADIA**  
**BOND AND NOTE MATURITIES**

**JUNE 30, 2011**

**General Obligation Notes**

Year Ended June 30,	<u>GO Replacement Note</u> <u>Issued October 5, 2001</u>		<u>Promissory Note</u> <u>Issued October 8, 2001</u>		Total
	Interest Rates	Amount	Interest Rates	Amount	
2012	3.50%	\$ 13,967	--	\$ -0-	\$ 13,967
2013	--	14,456	--	-0-	14,456
2014	--	-0-	--	-0-	-0-
2015	--	-0-	--	-0-	-0-
2016	--	-0-	--	-0-	-0-
2017	--	-0-	0%	20,000	20,000
Total		\$ 28,423		\$ 20,000	\$ 48,423

**Revenue Notes**

Year Ended June 30,	<u>Urban Renewal Tax</u> <u>Increment Financing Revenue Bonds</u> <u>Issued October 15, 2008</u>		<u>Sewer Revenue Notes</u> <u>Issued July 1, 2003</u>	
	Interest Rates	Amount	Interest Rates	Amount
2012	4.75%	\$ 28,500	3.50%	\$ 14,000
2013	4.75%	28,500	3.50%	15,000
2014	4.75%	28,500	3.50%	15,000
2015	4.75%	28,500	3.50%	16,000
2016	4.75%	28,500	3.50%	16,000
2017	4.75%	28,500	--	-0-
2018	4.75%	28,500	--	-0-
Total		\$ 199,500		\$ 76,000

See Accompanying Independent Auditor's Report.



SCHEDULE 3  
(Continued)

Sewer Revenue Notes  
Issued June 1, 2006

<u>Year Ended June 30,</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Total</u>
2012	3.00%	\$ 9,000	\$ 51,500
2013	3.00%	9,000	52,500
2014	3.00%	9,000	52,500
2015	3.00%	9,000	53,500
2016	3.00%	10,000	54,500
2017	3.00%	10,000	38,500
2018	3.00%	10,000	38,500
2019	3.00%	11,000	11,000
2020	3.00%	11,000	11,000
2021	3.00%	11,000	11,000
2022	3.00%	12,000	12,000
2023	3.00%	12,000	12,000
2024	3.00%	12,000	12,000
2025	3.00%	13,000	13,000
2026	3.00%	13,000	13,000
		\$ <u>161,000</u>	\$ <u>436,500</u>

**CITY OF ARCADIA**

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS**

**FOR THE LAST SEVEN YEARS**

	<u>2011</u>	<u>2010 *</u>	<u>2009 *</u>	<u>2008</u>
Receipts:				
Property taxes	\$ 70,803	\$ 69,968	\$ 79,704	\$ 69,908
Tax increment financing	98,224	88,230	49,799	67,961
Other city taxes	59,097	52,145	52,991	49,739
License and permits	830	1,930	1,250	1,561
Use of money and property	3,734	3,780	6,278	7,417
Intergovernmental	55,623	49,136	46,527	47,676
Charges for service	28,276	25,758	24,929	25,091
Miscellaneous	<u>5,241</u>	<u>6,143</u>	<u>4,523</u>	<u>7,993</u>
Total	\$ <u>321,828</u>	\$ <u>297,090</u>	\$ <u>266,001</u>	\$ <u>277,346</u>
Disbursements:				
Operating:				
Public safety	\$ 22,788	\$ 23,747	\$ 17,240	\$ 21,533
Public works	85,829	82,401	144,733	148,358
Culture and recreation	12,085	18,870	13,530	10,079
General government	38,689	37,347	48,955	36,421
Debt service	106,892	11,580	72,294	36,010
Capital projects	<u>-0-</u>	<u>44,703</u>	<u>411,187</u>	<u>78,342</u>
Total	\$ <u>266,283</u>	\$ <u>218,648</u>	\$ <u>707,939</u>	\$ <u>330,743</u>

\* Unaudited

See accompanying independent auditor's report.

SCHEDULE 4  
(Continued)

	<u>2007 *</u>	<u>2006 *</u>	<u>2005 *</u>
\$	70,493	\$ 67,525	\$ 68,232
	65,497	22,303	21,795
	48,679	48,224	46,579
	1,992	2,018	1,442
	6,124	6,223	6,144
	45,463	81,578	43,922
	1,453	23,734	25,663
	<u>19,359</u>	<u>21,770</u>	<u>12,269</u>
\$	<u>259,060</u>	\$ <u>273,375</u>	\$ <u>226,046</u>
\$	22,245	\$ 17,754	\$ 15,150
	79,706	109,248	124,091
	9,307	13,535	14,201
	32,897	33,371	35,894
	36,011	111,535	24,430
	<u>-0-</u>	<u>172,237</u>	<u>-0-</u>
\$	<u>180,166</u>	\$ <u>457,680</u>	\$ <u>213,766</u>



**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

# MUXFELDT

## ASSOCIATES, CPA, P.C.

Certified Public Accountant

January 12, 2012

**Lonnie G. Muxfeldt**  
Certified Public  
Accountant

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INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Arcadia, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued my report thereon dated January 12, 2012. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Arcadia's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Arcadia's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

Continued . . .

January 12, 2012  
To the Honorable Mayor and  
Members of the City Council:  
Page Two

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Arcadia's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Arcadia's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Arcadia's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City of Arcadia's responses, I did not audit the City of Arcadia's responses and, accordingly, I express no opinion on them.

Continued . . .





January 12, 2012  
To the Honorable Mayor and  
Members of the City Council:  
Page Three

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Arcadia and other parties to whom the City of Arcadia may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Arcadia during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

*Munfeldt Associates, CPA, P.C.*



**CITY OF ARCADIA**

**SCHEDULE OF FINDINGS**

**YEAR ENDED JUNE 30, 2011**

**PART I: FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**INTERNAL CONTROL DEFICIENCIES:**

**I-A-11 Lack of Council Oversight**

Comment - In a small city hall where a part time clerk/treasurer performs all financial functions such as check signing, bookkeeping, handling cash, making deposits and initiating telephone transfers between City accounts, it falls upon the City Council to provide oversight and monitor the transactions that make up the financial reporting process.

Recommendation - City Council should consider appointing an independent City Treasurer to prepare the Treasurer's Reports. Also, City Council should consider having the mayor or some other councilor date and initial invoices prior to payment. These procedures provide considerable oversight in other towns of similar size.

Response - We will consider appointing an independent City Treasurer to prepare the Treasurer's Reports. Also, we will consider having the mayor or some other councilor date and initial invoices prior to payment.

Conclusion - Response acknowledged.

**I-B-11 Financial Reporting - Budget Amendment**

Comment - On May 9, 2011, the City Council amended the fiscal year 2011 budget. However, the amounts presented on the amendment were taken from the fiscal year 2012 budget. In effect, City Council amended the 2012 budget on May 9, 2011.

Recommendation - When preparing a budget amendment, procedures should be implemented to ensure that the correct figures are presented for amendment.

Response - Procedure will be implemented and followed in the future.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**CITY OF ARCADIA**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED JUNE 30, 2011**

**PART II: OTHER FINDINGS RELATED TO STATUTORY REPORTING:**

- II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011, exceeded the amounts budgeted in the debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-11 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name</u>	<u>Description</u>	<u>Amount</u>
Joel Owen	Partial Owner, Cornerstone Insurance, LLC	\$13,536

The transaction with the Councilor does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

- II-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**CITY OF ARCADIA**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED JUNE 30, 2011**

**PART II: OTHER FINDINGS RELATED TO STATUTORY REPORTING (Continued):**

- II-F-11 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not uniformly published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

The City did not publish annual gross salaries in accordance with Attorney General's opinion dated April 12, 1978.

While the City did publish monthly a list of all claims and a summary of all receipts and disbursements from each fund, the City did not show the gross amount of the claims or identify the period in the summary of receipts and disbursements in accordance with Section 372.13 of the Code of Iowa.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa by publishing minutes within fifteen days and annual individual salaries as required. Also, the City should provide a total of the claims and identify the period in the summary of receipts and disbursements by fund.

Response - We will publish minutes timely as required. Annual salaries will be published in future. A total of the claims will be provided and the summary of receipts and disbursements by fund will be identified by period.

Conclusion - Response accepted.

- II-G-11 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

- II-H-11 Financial Condition - At June 30, 2011, the Local Option Sales Tax Fund had a deficit balance of \$2,078 and the Tort (Insurance) Fund had a deficit balance of \$1,800.

Recommendation - The City should eliminate these deficits and return these funds to a sound financial position.

Response - Both deficits were eliminated upon the receipt of local option taxes and property taxes subsequent to June 30, 2011.

Conclusion - Response accepted.



CITY OF ARCADIA  
ARCADIA, IOWA 51430

**NEWS RELEASE**

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Arcadia, Iowa.

The City's receipts totaled \$449,401 for the year ended June 30, 2011, The receipts included \$73,052 from property tax, \$98,224 from tax incremental financing, \$157,140 from charges for services, \$57,877 from operating grants, contributions and restricted interest, \$56,848 from local option sales tax, \$1,019 from unrestricted investment earnings, and \$5,241 in other general receipts.

Disbursements for the year totaled \$530,483 and included \$193,205 for sewer, \$106,892 for debt service, and \$85,829 for public works.

The significant increase in disbursements is primarily due to sludge removal from the sewer lagoons.

A copy of the audit report is available for review in the City Clerk's office, in the office of the Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

